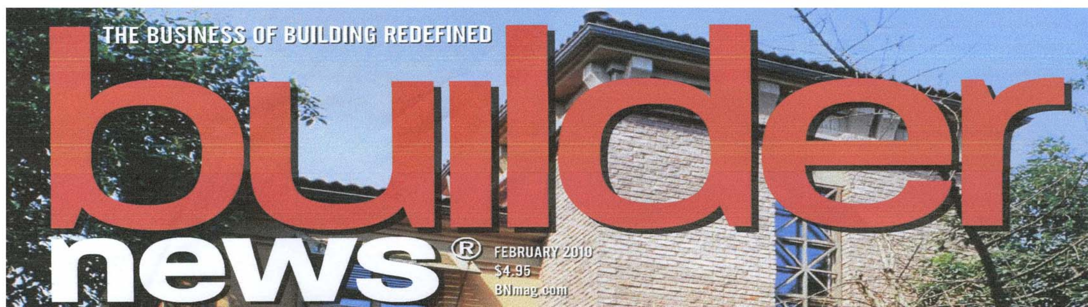


# Partnerships: The secret to longevity

Picking the right partner is key

JASON PERRIN

In many respects, a real estate partnership is like a marriage. It's easy to fall in love at first sight; it's only when you are still going strong years later that it becomes a success. The secret to longevity in both types of relationships is choosing the right partner from the start.

In most partnerships there is an operating or general partner and there is a capital or limited partner. Typically, the general partner is responsible for the day-to-day management of the asset and the limited partner is responsible for contributing the majority of the capital and overseeing the collective investment. Over the life of any partnership, there are changes and stresses that occur, and preparing appropriately and performing up-front due diligence on your partner is critical to success.

Just as you would research the investment or asset itself, investing time in due diligence on your partner before doing a deal can determine ultimate success or failure. Having lived through many successful partnerships and some failed ones, I can share with you some areas of consideration that partners needs to understand before joining as one.

Most important, both partners need to have experience with the target investment and share a similar view of the factors that lead to success. First, we will discuss due diligence from the limited partner perspective. Any "great acquisition" can unravel through a general partner's poor execution of the business plan; therefore the first consideration should be on the prospective general partner's applicable experience and capabilities with the target asset or investment. It is critical for the limited partner to understand the nuances of the general partner's prior experience. For example, prior experience as a successful homebuilder does not necessarily constitute residential land development experience. Similarly, successful apartment development experience may not translate to the success of an apartment deal that is driven by tax credits.

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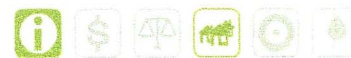
A general partner also should understand a limited partner's prior experience with the target asset class. While some may view a limited partner as a "silent partner," I always found that having a limited partner who clearly understands and has experience with the target asset or investment is a great benefit to the partnership in many ways. They can be a sounding board for ideas, they can bring relationships that add value to the partnership, and perhaps most important, they are better equipped to understand change and collectively work with you when things do not go according to plan.

From a general partner perspective, it is important to understand how the limited partner raises and manages their capital. For example, sometimes the timing of capital outlays can vary dramatically within a partnership. Due to the way certain limited partners manage their internal capital commitments, cash for your partnership may not be available when it is needed. A general partner should also consider who their key points of contact will be after signing the agreement and where those people are located. In many cases, the deal makers are different from the asset managers, and while you might have a good relationship with the deal maker, you might not with the asset manager. Having the limited partner relatively close geographically also tends to be beneficial. They typically spend more time visiting the asset and are thus more aware of its operations. Close proximity also allows them to react more quickly with critical decisions including the initial asset purchase.

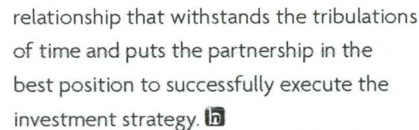
In addition to up-front partner due diligence, one must also be smart when



negotiating the partnership document or operating agreement. Without getting into all the details and potential pitfalls of a partnership document, it is important to understand that successful partnership documents that survive the tests of time and partnership stresses are usually the result of two partners who have done their homework on each other and share the same philosophies and understanding about the target asset.

Once a partnership is formed, constant communication between the two parties is critical to avoiding conflict. A partnership document or operating agreement usually requires regular reporting and updates from the general partner and regular meetings (typically quarterly) between the partners. While this limited exchange of information is required, I found it far more effective as an operating partner to regularly update the limited partner on the progress of the investment. This can include weekly conference calls, regular site visits by the limited partner, and even setting up a website with regularly updated pictures or live camera feed so the limited partner can check in online to view the status of development or construction. This involvement gets the limited partner to buy into the execution of the business plan. While this can take up significant general partner time, it fosters a relationship based on trust and openness, which goes a long way when unexpected problems or opportunities arise with the investment.

Like a marriage, real estate partnerships develop over time, go through extreme highs and lows, and ultimately end in success or failure. And while partnerships have guiding documents such as operating agreements and business plans, they rely on individual relationships between people and companies for their success. Through good up-front respective partner due diligence, both parties can set the stage to form a relationship that withstands the tribulations of time and puts the partnership in the best position to successfully execute the investment strategy.



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